

South Carolina Department of Employment and Workforce

Unemployment Compensation Fund

Report on the

Financial Statements

For the Years Ended June 30, 2020 and 2019

## Contents

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South Carolina Office of the State Auditor Transmittal Letter.....	1
Independent Auditor’s Report.....	2-3
Management’s Discussion and Analysis.....	4-9
Basic Financial Statements:	
Statements of Net Position .....	10
Statements of Revenues, Expenses, and Changes in Net Position .....	11
Statements of Cash Flows .....	12
Notes to Financial Statements .....	13-23
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i> .....	24-25
Schedule of Findings and Responses .....	26

## **Independent Auditor's Report**

Mr. George L. Kennedy, III, CPA  
State Auditor  
South Carolina Office of the State Auditor  
Columbia, South Carolina

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the South Carolina Department of Employment and Workforce Unemployment Compensation Fund (the "Unemployment Compensation Fund") as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Unemployment Compensation Fund's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the South Carolina Department of Employment and Workforce Unemployment Compensation Fund as of June 30, 2020 and 2019, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Reporting Entity**

As described in Note 1, the financial statements of the Unemployment Compensation Fund are intended to present the financial position, the changes in financial position and cash flows of only that portion of the funds of the State of South Carolina financial reporting entity that is attributable to the transactions of the Unemployment Compensation Fund. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2020 and 2019, the changes in its financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November, 2020, on our consideration of the Unemployment Compensation Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Unemployment Compensation Fund's internal control over financial reporting and compliance.

Columbia, South Carolina  
November, 2020

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the South Carolina Department of Employment and Workforce (the "Agency") offers readers this narrative overview and analysis of the financial activities attributed to the Agency's Unemployment Compensation Fund for the years ended June 30, 2020 and 2019. Please read this information in conjunction with the Unemployment Compensation Fund's financial statements and accompanying notes.

### Overview of the Unemployment Compensation Fund

- The Unemployment Compensation Fund was created per Section 41-33-10 of the South Carolina Employment Security Law. The Unemployment Compensation Fund is made up of three separate accounts: (1) a clearing account which is used for the deposit of contributions, interest surcharges, penalties and interest, contingency funds, service charges, recording fees, and payments in lieu of contributions received from employers in the State of South Carolina; (2) an unemployment trust fund account consisting of funds transferred from the clearing account and funds received from other states to be held to withdraw for unemployment benefit claims and to make required principal payments on federal unemployment account advances; this account also contains money received from the federal government as reimbursements pursuant to Section 204 of the Federal-State Extended Compensation Act of 1970; and (3) a benefit payment account which receives cash from the Federal Unemployment Trust Fund to pay unemployment benefit claims.
- Generally, the principal source of revenues for the Unemployment Compensation Fund are quarterly unemployment tax contributions paid by employers. However, the Unemployment Compensation Fund also receives federal reimbursements for federal emergency and extended unemployment benefits, as well as benefits paid to former employees of the federal government and former military employees. Federal law requires the Unemployment Compensation Fund to hold all reserves in the Federal Unemployment Trust Fund, which invests in obligations guaranteed by the United States, and earnings on the Federal Unemployment Trust Fund may be used only to pay benefits. With the exception of certain federal allocations, the Unemployment Compensation Fund's reserves may be used only to pay unemployment benefits and, in certain circumstances, to refund excess overpayment recoveries to employers, claimants or the federal government.
- Federal special administrative allocations, which are special distributions to each state, may be used to pay costs associated with implementing and administering the provisions of state law that qualify it for incentive payments made under the February 2009 Assistance for Unemployed Workers and Struggling Families Act, and certain other administrative costs.
- If the Unemployment Compensation Fund exhausts all of its reserves, it may borrow from the Federal Unemployment Trust Fund via Title XII advances to continue paying benefits. With the exception of some short-term cash flow situations and the period of federal interest forgiveness between February 2009 and December 2010, any federal borrowing carries interest charges. The interest charges may not be funded from regular employer tax contributions.
- Administrative costs of the Unemployment Insurance Program are accounted for in the Agency's Special Revenue Fund and are not reported within the Unemployment Compensation Fund's financial statements. In addition, interest liabilities and payments on outstanding advances from the federal government are accounted for in the Agency's Special Revenue Fund, and are not reported within these financial statements.

- Per State law and regulation, and in accordance with United States Department of Labor best practices, a healthy unemployment insurance trust fund has a sufficient balance to pay one year of benefits (at historically high cost rates) with no additional contributions. This is referred to as having an Average High Cost Multiple (“AHCM”) of 1.0 or greater. The South Carolina General Assembly has directed the Agency to rebuild the Unemployment Compensation Fund to a level that is equal to having an AHCM of 1.0. Tax year 2020 was the final year of a five year rebuilding period that could include an assessment going towards rebuilding the Unemployment Compensation Fund. Since the Unemployment Compensation Fund balance as of June 30, 2019 met the requirement of having an AHCM of 1.0, no additional solvency surcharges were levied for tax year 2020. State regulations provide for a suspension of the rebuilding process if the State enters into a future recession. The unprecedented level of benefit payments that have occurred as a result of the Coronavirus Disease (“COVID-19”) pandemic will likely result in the need for a future period of rebuilding with additional solvency surcharges in future tax years to regain the AHCM of 1.0.
- During January 2013, the Unemployment Compensation Fund began receiving federal tax refunds intercepted by the United States Department of the Treasury, which were initially due from claimants that received unemployment compensation payments to which they were not entitled. The Agency’s successful implementation of the Treasury Offset Program allowed the Unemployment Compensation Fund to recover additional overpayments of approximately \$2.9 million and \$1.2 million during the years ended June 30, 2020 and 2019, respectively.
- The Agency may recover overpaid unemployment compensation benefits through involuntary wage withholdings. The wage withholding recoveries were approximately \$2.6 million and \$1.2 million during the years ended June 30, 2020 and 2019, respectively.

### **Financial Highlights**

- Assets of the Unemployment Compensation Fund exceeded its liabilities as of June 30, 2020 by approximately \$1.3 billion, which is shown as net position. The June 30, 2019 net position was approximately \$1.2 billion. The Unemployment Compensation Fund has continued to steadily improve its net position since the year ended June 30, 2011 through the year ended June 30, 2019 and has not borrowed from the Federal Unemployment Account to make benefit payments since May 2011. Tax revenues have been sufficient to allow the State to continue making benefit payments to unemployed individuals and continue restoring the Unemployment Compensation Fund’s solvency level to an acceptable threshold, following best practices issued by the United States Department of Labor. The unprecedented level of benefit payments that have occurred as a result of the COVID-19 pandemic will likely result in the need for a future period of rebuilding with additional solvency surcharges in future tax years to regain the AHCM of 1.0.
- The Unemployment Compensation Fund’s ending net position increased by approximately \$134.2 million during the year ended June 30, 2020 primarily due to an award received from the State of South Carolina as a Coronavirus Relief Fund Grant of \$500.0 million to supplement the Unemployment Compensation Fund cash balance.
- Total unemployment compensation benefit payments were approximately \$3.06 billion and \$164.8 million during the years ended June 30, 2020 and 2019, respectively.

## **Overview of the Financial Statements**

The Management's Discussion and Analysis serves as an introduction to the basic financial statements. These financial statements consist of (1) Statements of Net Position; (2) Statements of Revenues, Expenses, and Changes in Net Position; (3) Statements of Cash Flows; and (4) Notes to Financial Statements. The Management's Discussion and Analysis represents management's own analysis of the Unemployment Compensation Fund's financial condition.

The Statements of Net Position provide information about the nature and amount of resources (assets) and obligations (liabilities) at year-end.

The Statements of Revenues, Expenses, and Changes in Net Position present the results of the business activities over the course of the year and information as to how the net position changed during the year. The Statements of Cash Flows present changes in cash resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursements information.

The Notes to Financial Statements provide required disclosures and other information that is essential to a full understanding of the information provided in the statements. The notes present information about the accounting policies, significant account balances, and activities of the Unemployment Compensation Fund.

## **Condensed Financial Data**

### **Statements of Net Position**

	2020	2019	Change
Assets - all current	\$ 1,574,216,010	\$ 1,195,907,728	\$ 378,308,282
Liabilities - all current	273,533,729	29,470,665	244,063,064
Total net position - all restricted	<u>\$ 1,300,682,281</u>	<u>\$ 1,166,437,063</u>	<u>\$ 134,245,218</u>

### **Statements of Revenues, Expenses, and Changes in Net Position**

	2020	2019	Change
Operating revenues			
Assessments	\$ 235,314,742	\$ 323,197,597	\$ (87,882,855)
Federal grants	2,377,010,050	5,143,445	2,371,866,605
Benefit overpayment recoveries	11,490,546	5,573,299	5,917,247
Intergovernmental	32,495,004	10,315,167	22,179,837
Reimbursements of unemployment compensation			
benefits from employers	11,973,612	2,416,312	9,557,300
Total operating revenues	<u>2,668,283,954</u>	<u>346,645,820</u>	<u>2,321,638,134</u>
Operating expenses			
Unemployment compensation benefits	3,059,004,928	164,809,059	2,894,195,869
Payments returned to the federal government	543,038	624,672	(81,634)
Interest expense	3,122	-	3,122
Total operating expenses	<u>3,059,551,088</u>	<u>165,433,731</u>	<u>2,894,117,357</u>
Operating (loss) income	(391,267,134)	181,212,089	(572,479,223)
Non-operating revenues			
Interest income	25,511,764	22,086,514	3,425,250
Reed Act proceeds	-	81,465	(81,465)
FUTA credit adjustment	588	542	46
Total non-operating revenues	<u>25,512,352</u>	<u>22,168,521</u>	<u>3,343,831</u>
Transfers in	<u>500,000,000</u>	<u>-</u>	<u>500,000,000</u>
Change in net position	134,245,218	203,380,610	(69,135,392)
Beginning net position	1,166,437,063	963,056,453	203,380,610
Ending net position	<u>\$ 1,300,682,281</u>	<u>\$ 1,166,437,063</u>	<u>\$ 134,245,218</u>

### **Statement of Net Position:**

Total assets increased by approximately \$378.3 million primarily due to an award received from the State of South Carolina as a Coronavirus Relief Fund Grant of \$500.0 million to supplement the Unemployment Compensation Fund cash balance. For the year ended June 30, 2020, tax rates were set to raise less money as the Unemployment Compensation Fund balance approached statutorily mandated levels. The tax rates for year ended June 30, 2020 did not anticipate the significant negative impacts COVID-19 would have on the State's benefit payment levels. During the year ended June 30, 2020, there were no payments for federal advances since the Unemployment Compensation Fund paid its final federal advances in full during June 2015.



Total liabilities increased by approximately \$244.1 million, primarily due to increases in contributions payable, benefits payable and amounts due to other funds.

Federal intergovernmental payables include claimant overpayment refunds received by the Unemployment Compensation Fund, cancelled payments, and other items being owed back to the federal government.

Ending net position increased by approximately \$134.2 million during the year ended June 30, 2020 due to an award received from the State of South Carolina as a Coronavirus Relief Fund Grant of \$500.0 million to supplement the Unemployment Compensation Fund cash balance. Ending net position increased by \$203.4 million during the year ended June 30, 2019, which was the result of a higher than expected growth in employment, causing tax revenues to grow at an increased rate, along with a significant decrease in unemployment compensation benefits payments as the economy continued to complete the recovery from the national recession.

### **Revenues, Expenses, and Changes in Net Position:**

Assessments decreased by approximately \$87.9 million compared to last year. Per South Carolina State law, unemployment insurance tax rates are set each year to raise sufficient revenues to pay projected benefits as well as to either repay outstanding federal loans or begin rebuilding the Unemployment Compensation Fund to an adequate level as defined in State law. For the year ended June 30, 2019, taxes were set to raise approximately \$289.0 million (\$195.0 million for benefit payments and \$94.0 million for South Carolina Unemployment Compensation Fund rebuilding). For the year ended June 30, 2020, tax rates were set to raise less money as the Unemployment Compensation Fund balance approached statutorily mandated levels, approximately \$229.0 million (\$200.0 million for benefit payments and \$29.0 million for South Carolina Unemployment Compensation Fund rebuilding). The tax rates for year ended June 30, 2020 did not anticipate the significant negative impacts COVID-19 would have on the State's benefit payment levels.

Total operating income decreased by approximately \$572.5 million during the year ended June 30, 2020 primarily due to the increase in benefit payments.

Unemployment compensation benefits increased by approximately \$2.9 billion during the year ended June 30, 2020 due to the unprecedented level of benefit payments that have occurred as a result of the COVID-19 pandemic. State benefits paid increased by approximately \$522.2 million and federal benefits paid increased by approximately \$2.4 billion during the year ended June 30, 2020 compared to the year ended June 30, 2019.

The following is a summary of the benefits paid (in millions) for the year ended June 30,

	2020	2019	Change
State benefits paid	\$ 682.0	\$ 159.8	\$ 522.2
Federal benefits paid	2,377.0	5.0	2,372.0
Total benefits paid	<u>\$ 3,059.0</u>	<u>\$ 164.8</u>	<u>\$ 2,894.2</u>

The COVID-19 pandemic has had an unprecedented impact on the State's economy and also on its unemployment insurance system. While the tax rates for 2020 were set to raise approximately \$195 million in calendar year 2020, the State is on track to payout over \$1 billion by December 31, 2020. Additionally, the statewide shutdown of a significant portion of the economy resulted in fewer individuals working, earning wages, and thus paying unemployment taxes. This combination of higher benefit payments and lower than previously anticipated tax revenue has resulted in a dramatic drop in the Unemployment Compensation Fund fund balance since mid-March 2020.

Prior to the pandemic, the State's Unemployment Compensation Fund had met the statutory requirement to have approximately 1 year's worth of benefit payments that would correspond to an "average" recession.

Depending on how economic conditions change and whether there will be any additional external funding provided, the Unemployment Compensation Fund may enter a new "rebuilding period" beginning in calendar year 2022 to restore the balance of the Unemployment Compensation Fund to the fund adequacy target over a four year period.

There were several sources of additional revenue, outside the normal tax system, that resulted from the pandemic. The State of South Carolina appropriated \$500.0 million in Coronavirus Aid, Relief, and Economic Security ("CARES") Act funding to the Unemployment Compensation Fund to offset some of the negative impact of the pandemic. The Unemployment Compensation Fund also received federal funding as a result of waiving the normally required one week waiting period for individuals to qualify for unemployment benefits. The federal government reimbursed states for the costs associated with waiving that waiting week through the end of calendar year 2020. Additionally, the federal government agreed to pay 50 percent of the charges that reimbursable employers owed as a result of the pandemic. These two additional federal reimbursements have helped keep the Unemployment Compensation Fund balance higher than it would otherwise be during this period and will help to minimize rebuilding costs in future years.

**Request for information:**

The primary purpose of this financial report is to provide a general overview of the Unemployment Compensation Fund's finances and to demonstrate the Unemployment Compensation Fund's accountability for the money it receives and spends. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

South Carolina Department of Employment and Workforce  
Attn: Chief Financial Officer  
1550 Gadsden Street, P.O. Box 995  
Columbia, SC 29202

South Carolina Department of Employment and Workforce  
Unemployment Compensation Fund  
Statement of Net Position  
As of June 30,

	2020	2019
<b>Assets</b>		
Current assets:		
Cash	\$ 715,881,893	\$ 1,064,728,906
Internal balances	500,000,000	-
Assessments receivable, net	103,732,489	117,022,747
Benefit overpayment receivables, net	17,061,442	6,792,613
Accounts receivable	-	2,669,893
Due from reimbursable employers	11,059,678	-
Intergovernmental receivables:		
Federal government	200,397,252	778,048
State agencies	6,939,036	511,471
Other states	3,488,194	932,395
Local governments	15,656,026	2,471,655
Total assets	<u>1,574,216,010</u>	<u>1,195,907,728</u>
<b>Liabilities</b>		
Current liabilities:		
Benefits payable	212,546,327	1,512,667
Income tax withholdings payable	1,126,770	125,734
Contributions payable	36,728,711	20,347,219
Other payables	20,897	-
Due to reimbursable employers	-	2,080,586
Interfund payables	19,969,555	2,525,199
Intergovernmental payables:		
Federal government	29,910	1,333,352
Other states	3,111,559	1,545,908
Total liabilities	<u>273,533,729</u>	<u>29,470,665</u>
Total restricted net position	<u>\$ 1,300,682,281</u>	<u>\$ 1,166,437,063</u>

*The accompanying notes are an integral part of these financial statements.*

South Carolina Department of Employment and Workforce  
Unemployment Compensation Fund  
Statement of Revenues, Expenses, and Changes in Net Position  
For the Years Ended June 30,

	2020	2019
<b>Operating revenues</b>		
Assessments	\$ 235,314,742	\$ 323,197,597
Reimbursements of unemployment compensation		
benefits from employers	11,973,612	2,416,312
Benefit overpayment recoveries	11,490,546	5,573,299
Intergovernmental:		
Federal government	2,377,010,050	5,143,445
State agencies	8,047,881	2,166,640
Other states	5,901,858	3,400,531
Local governments	18,545,265	4,747,996
Total operating revenues	<u>2,668,283,954</u>	<u>346,645,820</u>
<b>Operating expenses</b>		
Unemployment compensation benefits	3,059,004,928	164,809,059
Payments returned to the federal government	543,038	624,672
Interest expense	3,122	-
Total operating expenses	<u>3,059,551,088</u>	<u>165,433,731</u>
Operating (loss) income	<u>(391,267,134)</u>	<u>181,212,089</u>
<b>Non-operating revenues</b>		
Interest income	25,511,764	22,086,514
Reed Act proceeds	-	81,465
FUTA credit adjustment	588	542
Total non-operating revenues	<u>25,512,352</u>	<u>22,168,521</u>
<b>Transfers in</b>	<u>500,000,000</u>	<u>-</u>
Change in net position	134,245,218	203,380,610
Beginning net position	<u>1,166,437,063</u>	<u>963,056,453</u>
Ending net position	<u>\$ 1,300,682,281</u>	<u>\$ 1,166,437,063</u>

*The accompanying notes are an integral part of these financial statements.*

South Carolina Department of Employment and Workforce  
Unemployment Compensation Fund  
Statement of Cash Flows  
For the Years Ended June 30,

	2020	2019
<b>Cash flows from operating activities:</b>		
Cash received from assessments	\$ 273,610,606	\$ 325,636,540
Cash received from employer reimbursements, net	9,893,026	2,453,295
Cash received from benefit overpayment recoveries	3,891,610	6,122,410
Cash received from federal, state and local agencies	2,176,658,437	13,046,005
Cash paid for benefits	(2,830,851,794)	(176,503,908)
Cash paid for refunds of overpaid assessments	(7,561,250)	(9,089,894)
Net cash flows (used in) provided by operating activities	<u>(374,359,365)</u>	<u>161,664,448</u>
<b>Cash flows from capital related financing activities:</b>		
Proceeds from sale of land (Reed Act)	-	81,465
Net cash flows provided by capital related financing activities	<u>-</u>	<u>81,465</u>
<b>Cash flows from non-capital related financing activities:</b>		
Proceeds from federal government, net of FUTA credits	588	542
Net cash flows provided by non-capital related financing activities	<u>588</u>	<u>542</u>
<b>Cash flows from investing activities:</b>		
Proceeds from interest earned on Federal Unemployment Trust Fund	25,511,764	22,086,514
Net cash flows provided by investing activities	<u>25,511,764</u>	<u>22,086,514</u>
Net (decrease) increase in cash	(348,847,013)	183,832,969
<b>Cash – beginning</b>	1,064,728,906	880,895,937
<b>Cash – ending</b>	<u>\$ 715,881,893</u>	<u>\$ 1,064,728,906</u>
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities:		
Operating (loss) income	\$ (391,267,134)	\$ 181,212,089
Net changes in operating assets and liabilities:		
Assessments receivable, net	13,290,258	(4,068,991)
Due from reimbursable employers	(11,059,678)	-
Benefit overpayment receivables, net	(10,268,829)	549,616
Accounts receivable	2,669,893	(505)
Intergovernmental receivables:		
Federal government	(199,619,204)	(479,372)
State agencies	(6,427,565)	102,118
Other states	(2,555,799)	(200,243)
Local governments	(13,184,371)	(1,835,110)
Benefits payable	211,033,660	(2,529,135)
Income tax withholdings payable	1,001,036	116,059
Contributions payable	16,381,492	(8,197,519)
Other payables	20,897	-
Interfund payables	17,444,356	(2,581,960)
Due to reimbursable employers	(2,080,586)	36,983
Intergovernmental payables:		
Federal government	(1,303,442)	(166,331)
Other states	1,565,651	(293,251)
Net cash flows (used in) provided by operating activities	<u>\$ (374,359,365)</u>	<u>\$ 161,664,448</u>

*The accompanying notes are an integral part of these financial statements.*

South Carolina Department of Employment and Workforce  
Unemployment Compensation Fund  
Notes to Financial Statements  
For the Years Ended June 30, 2020 and 2019

**Note 1. Summary of Significant Accounting Policies**

**Reporting Entity** - Enactment of the first South Carolina Unemployment Compensation Law followed action by Congress in passing the Social Security Act on August 14, 1935. The original South Carolina law, which established a free public employment service and a system of unemployment insurance, became effective June 6, 1936. During 1966, the name of the law was changed to the South Carolina Employment Security Law.

The Employment Security Commission (the "Commission") was created by Section 41-29-10 of the South Carolina Code of Laws to administer the South Carolina Employment Security Law which provides for the payment of unemployment insurance benefits, the collection of the unemployment tax from subject employers, and the operation of a statewide employment service. Section 41-29-10 was amended by the South Carolina General Assembly during 2011 through Act 146 to replace the Commissioners with an Executive Director. The act also renamed the Commission the Department of Employment and Workforce (the "Agency"), moved it to the Governor's cabinet, moved the Workforce Investment Act ("WIA") and Trade Assistance Act ("TAA") programs back to the Agency from another State agency, and established an appellate panel charged with hearing higher level appeals for unemployment benefits.

The South Carolina General Assembly elects the three members of the appellate panel for four-year terms. The Agency must be managed and operated by an Executive Director nominated by the State Department of Employment and Workforce Review Committee and appointed by the Governor. The Governor must transmit the name of his appointee to the Senate for advice and consent. The term of the Executive Director is conterminous with that of the Governor and until a successor is appointed. The Executive Director is subject to removal by the Governor.

The Agency's Unemployment Compensation Fund accounts for all financial transactions related to employer tax contributions, employer reimbursements in lieu of tax contributions, and federal and other funds used for the payment of unemployment compensation benefits. Interest income earned on excess funds on deposit with the United States Treasury is retained in the Unemployment Compensation Fund for the payment of unemployment compensation benefits as long as the Unemployment Compensation Fund is not indebted to the federal government for Federal Unemployment Trust Fund advances.

The accounting policies of the Unemployment Compensation Fund conform to accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body in the United States of America for establishing governmental accounting and financial reporting principles. The more significant of the Unemployment Compensation Fund's accounting principles are described below.

**Component Units** - The Unemployment Compensation Fund applies the provisions of GASB Statement No. 61, The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34, in evaluating the nature of the financial reporting entity. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. An organization other than the primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as the primary entity. The financial entity includes the Unemployment Compensation Fund (a primary entity) and the Unemployment Compensation Fund has determined that it has no component units.

A primary government or entity is financially accountable if it appoints a voting majority of the organization's governing body, including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex-officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its

South Carolina Department of Employment and Workforce  
Unemployment Compensation Fund  
Notes to Financial Statements  
For the Years Ended June 30, 2020 and 2019

will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity.

The primary entity is financially accountable if an organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

An organization can provide a financial benefit to, or impose a financial burden on, a primary government in a variety of ways. The benefit or burden may result from legal entitlements or obligations, or it may be less formalized and exist because of decisions made by the primary government or agreements between the primary government and a component unit. If a primary government appoints a voting majority of an organization's officials, or if the organization is fiscally dependent on the primary government, and there is a potential for those organizations either to provide specific financial benefits to, or to impose specific financial burdens on, the primary government, the primary government is financially accountable for those organizations.

An organization has a financial benefit or burden relationship with the primary government if, for example, any one of these conditions exists:

1. The primary government is legally entitled to or can otherwise access the organization's resources.
2. The primary government is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to the organization.
3. The primary government is obligated in some manner for the debt of the organization.

The laws of the State of South Carolina and the policies and procedures specified by the State of South Carolina for state agencies are applicable to the activities of this entity. The reporting entity operates somewhat autonomously, but lacks full corporate powers. The accompanying financial statements present the financial position and results of operations and note disclosures of only those transactions of the State of South Carolina, the primary government, that are attributable to the Unemployment Compensation Fund reporting entity defined above.

The Unemployment Compensation Fund includes the following:

*Basic Unemployment Compensation ("UC")* - This program accounts for regular unemployment benefits paid to individuals. It is funded by quarterly tax remittances from employers within the State of South Carolina, reimbursements from various state and local government and non-profit entities, as well as reimbursement from other states, recoupment of overpayments, and interest received on fund balances, when applicable.

*Temporary Full Funding* - On March 27, 2020, the President signed into law the CARES Act, which includes the Relief for Workers Affected by Coronavirus Act set out in Title II, Subtitle A, Section 2105 of the CARES Act, which provides for full federal funding of the first week of regular UC for states with no waiting week.

*Unemployment Compensation for Federal Employees ("UCFE")* - This program accounts for unemployment compensation paid to ex-federal employees and is funded by the federal government.

*Unemployment Compensation for Ex-Servicemen ("UCX")* - This program accounts for unemployment compensation paid to ex-servicemen and is funded by the federal government.

South Carolina Department of Employment and Workforce  
Unemployment Compensation Fund  
Notes to Financial Statements  
For the Years Ended June 30, 2020 and 2019

*Federal Pandemic Unemployment Compensation ("FPUC")* – This program accounts for benefits to individuals who have exhausted their entitlement for regular unemployment compensation ("UC") and who are not eligible for regular UC, such as individuals who are self-employed or have limited recent work history. This temporary program provides eligible individuals with \$600 per week in addition to the weekly benefit amount they receive from certain other UC programs.

On March 27, 2020, the President signed into law the CARES Act, which includes the Relief for Workers Affected by Coronavirus Act set out in Title II, Subtitle A, Section 2104 of the CARES Act, which provides for a temporary emergency increase in unemployment compensation benefits, referred to as FPUC, and includes funding to states for the administration of the program.

*Pandemic Unemployment Assistance ("PUA")* – This program accounts for temporary benefits to individuals who have exhausted their entitlement for regular unemployment compensation ("UC") and who are not eligible for regular UC, such as individuals who are self-employed or have limited recent work history.

On March 27, 2020, the President signed into law the CARES Act, which includes the Relief for Workers Affected by Coronavirus Act set out in Title II, Subtitle A. Section 2102 of the CARES Act creates a new temporary federal program called Pandemic Unemployment Assistance ("PUA") that in general provides up to 39 weeks of unemployment benefits, and provides funding to states for the administration of the program.

*Pandemic Emergency Unemployment Compensation ("PEUC")* – This program accounts for temporary benefits to individuals who have exhausted their entitlement to regular unemployment compensation ("UC") and who are not eligible for regular UC, such as individuals who are self-employed or have limited recent work history.

On March 27, 2020, the President signed into law the CARES Act, which includes the Relief for Workers Affected by Coronavirus Act set out in Title II, Subtitle A. Section 2107 of the CARES Act creates a new temporary federal program called Pandemic Emergency Unemployment Compensation ("PEUC") that provides up to 13 additional weeks of benefits to individuals who have exhausted their regular unemployment compensation ("UC") entitlement and also provides funding to states to administer the program.

*Extended Benefits ("EB")* - There are temporary changes to the Federal-State Extended Benefits ("EB") Program in Response to the Economic Impacts of the Coronavirus Disease 2019 ("COVID-19") Pandemic Emergency. EB is payable only after exhaustion of PEUC and other UC as described above. During the period that PEUC is available, an individual must have exhausted PEUC entitlement before commencing receipt of EB.

*Trade Readjustment Allowance ("TRA")* - This program accounts for unemployment compensation paid to individuals who have lost their jobs due to foreign trade. These payments are made after regular unemployment insurance benefits and extended benefits have been exhausted. It is funded by the federal government.

*Alternative Trade Adjustment Assistance ("ATAA")* - This program provides eligible individuals over the age of fifty who obtain new employment within twenty-six weeks of their separation with a wage subsidy to help bridge the salary gap between their old and new employment. It is funded by the federal government.



South Carolina Department of Employment and Workforce  
Unemployment Compensation Fund  
Notes to Financial Statements  
For the Years Ended June 30, 2020 and 2019

*Reemployment Trade Adjustment Assistance ("RTAA")* - This program was implemented during the year ended June 30, 2009 as a wage option available to older workers under the Trade Adjustment Assistance ("TAA") program to eventually replace ATAA. This program consists of monies paid to individuals who are at least fifty years old and who have lost their jobs due to imports but are now working again at a lower salary. They are paid fifty percent of the difference between their old and new salary. It is funded by the federal government.

*Disaster Unemployment Assistance ("DUA")* – This program provides temporary benefits to people whose jobs or self-employment have been lost or interrupted due to a major disaster.

**Basis of Accounting** - The Unemployment Compensation Fund's financial statements are prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenue is recognized when earned, and expenses are recorded when incurred. In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Unemployment Compensation Fund applies all GASB pronouncements and all Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, when not in conflict with GASB pronouncements.

**Net Position** - The Unemployment Compensation Fund reports under the provisions of Statement No. 34 ("Statement 34") of the GASB, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Statement 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net position, a classification of net position into three components – net investment in capital assets, restricted net position, and unrestricted net position.

These classifications are defined as follows:

*Net Investment in Capital Assets* - This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent debt proceeds. The Unemployment Compensation Fund does not have any capital assets; thus this classification is not used.

*Restricted Net Position* - This component of net position consists of restrictions through external constraints imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. Since the entirety of the Unemployment Compensation Fund's assets are restricted for unemployment compensation through state and federal law, its total net position has been classified as restricted net position as of June 30, 2020 and 2019.

*Unrestricted Net Position* - This component of net position consists of net positions that do not meet the definition of "restricted net position" or "net investments in capital assets." The Unemployment Compensation Fund had no unrestricted net position as of June 30, 2020 and 2019.

**Cash** - The amounts shown in the financial statements as cash represents cash on hand with the State Treasurer as part of the State's cash management pool and cash on deposit with the United States Treasury and in various banks. The Agency participates in the State's cash management pool. Because the cash management pool operates as a demand deposit account, amounts deposited in the pool are classified as cash. The State Treasurer administers the cash management pool.

South Carolina Department of Employment and Workforce  
Unemployment Compensation Fund  
Notes to Financial Statements  
For the Years Ended June 30, 2020 and 2019

The State's cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The Unemployment Compensation Fund records and reports its deposits in the general deposit account at cost.

**Receivables** - Receivables consist of the following:

*Assessments Receivable* - Unemployment tax contributions are assessed each quarter based on covered wages during the quarter. Taxes for a quarter are due on or before the end of the month following the close of the quarter. Amounts not paid by such date are considered delinquent and the Agency is required to notify employers of such tax delinquencies. If the delinquent amount is not paid within ten days thereafter, the Agency is directed to issue a warrant of execution upon real and personal property of the employer. Historical collection information is used to estimate and establish an allowance for uncollectible accounts. The allowance for uncollectible accounts is computed based on historical collection activity applied to outstanding account balances up to two years old with all account balances greater than two years old being fully reserved for.

*Benefit Overpayments Receivables* - Overpayments of unemployment compensation benefits occur due to changes in facts or estimates upon which benefits were originally paid or due to claimant fraud. Overpayments are due upon detection or discovery and are recovered by cash recoupments, intercepting of state and federal income tax refunds, wage withholdings from claimants' pay checks, or withholdings from subsequent benefits due to the claimants.

Benefit overpayment recoupments attributable to reimbursable employers or federal programs are due to such employers or the federal government and are classified as intergovernmental payables. Refunds are made only when there are no current benefit obligations. Historical collection information, along with United States Department of Labor recommended best-practices, are used to estimate and establish an allowance for uncollectible accounts. The allowance for uncollectible accounts represents all outstanding account balances greater than 450 days old.

*Due from Reimbursable Employers* - Amounts due from reimbursable employers include those amounts attributable to the actual benefits paid on behalf of certain non-profit employers to former employees.

*Intergovernmental Receivables, Federal Government* - The amounts due from the federal government represent reimbursements due under various federal grant programs under which the Agency pays unemployment benefits. Revenues and related receivables are recognized at the time and to the extent that allowable expenses are incurred under such programs.

*Intergovernmental Receivables, State Agencies* - The amounts due from state agencies represent unemployment benefit reimbursements due from other South Carolina State agencies.

*Intergovernmental Receivables, Other States and Local Governments* - The benefit reimbursement receivable due from other states and local governments is based on the pro-rata share of wages earned by the employees in those states and localities for which benefits are being paid by the Agency.

*Accounts Receivable* - Accounts receivable represents those amounts due from claimants who are determined to have received benefit overpayments and were assessed a FUTA overpayment penalty for a benefit overpayment deemed fraudulent by the Agency as further described in Note 9.

South Carolina Department of Employment and Workforce  
Unemployment Compensation Fund  
Notes to Financial Statements  
For the Years Ended June 30, 2020 and 2019

**Payables** - Payables consist of the following:

*Benefits Payable* – Benefits payable represents unemployment compensation amounts paid after year-end for benefit weeks ending on or before June 30<sup>th</sup>.

*Contributions Payable* – Contributions payable includes amounts received from employers in excess of actual unemployment tax liabilities. The Agency maintains these amounts as credits on the employers' account to cover future tax liabilities.

*Intergovernmental Payables, Other States* – Intergovernmental payables due to other states represent amounts due to other states as reimbursement for benefits paid by those states to South Carolina claimants.

*Intergovernmental Payables, Federal Government* – Intergovernmental payables due to the federal government represent overpayments of unemployment compensation benefits that occur due to changes in facts or estimates upon which benefits were originally paid or due to claimant fraud. Such overpayments that were funded by the federal government are due back to the federal government and are included as intergovernmental payables.

*Income Tax Withholdings Payable* – Income tax withholdings payable represents those amounts withheld from unemployment compensation benefits attributed to claimants. Tax withholdings are withheld and remitted to the State and federal government on their behalf.

*Amounts Due to Reimbursable Employers* - Amounts due to reimbursable employers include those amounts attributable to the actual benefits paid on behalf of certain non-profit employers to former employees.

**Operating and Non-operating Revenues and Expenses** - The Unemployment Compensation Fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with an enterprise fund's principal ongoing operations. The Unemployment Compensation Fund's primary operating revenues are from assessments and federal grants. The Unemployment Compensation Fund's primary operating expenses are unemployment compensation benefit payments. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

**Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

**Subsequent Events** - In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through November, 2020, the date these financial statements were available to be issued.

South Carolina Department of Employment and Workforce  
Unemployment Compensation Fund  
Notes to Financial Statements  
For the Years Ended June 30, 2020 and 2019

**Note 2. Cash**

The amounts reported as cash on the Statements of Net Position as of June 30 are composed of the following:

	2020	2019
Deposits held by the State Treasurer	\$ 3,902,180	\$ 9,573,342
Deposits held by the U.S. Treasury	704,699,832	1,050,622,227
Other deposits	7,279,881	4,533,337
Total	<u>\$ 715,881,893</u>	<u>\$ 1,064,728,906</u>

**Deposits Held by the State Treasurer** - State unemployment taxes received from businesses are initially deposited in the Unemployment Compensation Fund's clearing bank account, held by the State Treasurer. The deposits of the Unemployment Compensation Fund held by the State Treasurer are under the control of the State Treasurer. State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days.

**Deposits Held by the United States Treasury** - Amounts are regularly transferred from the Unemployment Compensation Fund's clearing account to the State's account in the Federal Unemployment Trust Fund. Under the provisions of Section 904(e) of the Social Security Act, the Secretary of the United States Treasury is authorized to credit to the account of each state agency, on a quarterly basis, a proportionate share of the earnings of the Federal Unemployment Trust Fund.

**Other Deposits** - Amounts needed to cover federal and state unemployment compensation expenses and related tax withholdings are drawn from the State's account in the Federal Unemployment Trust Fund into the Unemployment Compensation Fund's benefit payment account on a regular basis. This account is not controlled by the State Treasurer nor is it in the custody of the federal government. Custodial credit risk for deposits is the risk that in the event of a bank failure, the Unemployment Compensation Fund's deposits may not be returned or the Unemployment Compensation Fund will not be able to recover collateral securities in the possession of an outside party.

Section 11-13-60 of the South Carolina Code of Laws requires these funds to be fully insured or collateralized. All deposits of the Unemployment Compensation Fund met these requirements and are either covered by federal depository insurance or collateralized with securities held by the depository financial institution's trust department or agent in the Unemployment Compensation Fund's name. Funds are transferred on a regular basis from the deposits held by the United States Treasury to cover all benefit payments from this account.

**Note 3. Interfund Payables**

The amounts reported on the Statements of Net Position as interfund payables represent amounts which were collected for penalties, interest, contingency assessments, and interest surcharges via remittances from employers, as well as special administration funds received from the federal government that are payable to the Agency's Special Revenue fund to support its administration of the Unemployment Compensation Fund.

South Carolina Department of Employment and Workforce  
Unemployment Compensation Fund  
Notes to Financial Statements  
For the Years Ended June 30, 2020 and 2019

Amounts due to the Special Revenue Fund as of June 30 are as follows:

	2020	2019
Contingency assessments	\$ 453,123	\$ 185,080
Penalties, interest, service charges and fees	120,847	566,713
Special administration funds	1,551	1,551
Reed Act	1,753,556	1,753,556
CARES Act Administration	12,991,114	-
Reimbursable employers	3,793,100	-
FUTA penalty and integrity fund	856,264	18,299
Total	<u>\$ 19,969,555</u>	<u>\$ 2,525,199</u>

**Note 4. Reed Act**

The Reed Act, P.L. 83-567, establishes statutory ceilings in the Federal Unemployment Trust Fund accounts that, from time to time, may trigger funds to be distributed to state accounts. Federal law restricts states to using Reed Act distributions only to cover the cost of state benefits, employment services, labor market information, and administration of state unemployment compensation and employment services programs. Suggested uses by the United States Department of Labor included establishing revolving funds for automation costs, performance improvement, costs related to reducing unemployment insurance fraud and abuse, and other Unemployment Insurance Program improvements. An appropriation by the State's legislature is necessary before the State's share of this distribution may be used for unemployment compensation and employment services administrative expenses.

The Unemployment Compensation Fund has not received a Reed Act distribution since 2002; however, when certain properties owned by the State are sold, and contain Reed Act equity, the portion of proceeds attributable to original Reed Act equity must be deposited into the Unemployment Compensation and credited as Reed Act funds, up to the original amount of Reed Act participation in the property that has been sold. Any additional proceeds that represent appreciation over the original Reed Act amount of participation can only be used to pay unemployment compensation insurance benefits.

During the year ended June 30, 2019, the Agency sold real property containing Reed Act equity of \$659,260 and \$8,987. Of these sales, \$608,995 was transferred during the year ended June 30, 2019 with the remaining amount scheduled to be transferred during the year ending June 30, 2021. Of the \$608,995 transferred, \$81,465 represented a portion of the gain on the sale of the asset and was retained by the Unemployment Compensation Fund. The remaining \$527,530 was credited to the Unemployment Compensation Fund's Reed Act sub-account, representing the amount of original Reed Act participation in the purchase of the property and is included in the balance due to the Agency's Special Revenue Fund presented on the Statements of Net Position as these amounts will be drawn upon for administrative purposes. The remaining \$59,252 of total Reed Act equity received is not included in the balance due to the Agency's Special Revenue Fund presented on the Statements of Net Position as these amounts will not be received by the Unemployment Compensation Fund until the year ending June 30, 2021.

South Carolina Department of Employment and Workforce  
Unemployment Compensation Fund  
Notes to Financial Statements  
For the Years Ended June 30, 2020 and 2019

**Note 5. Receivables**

The receivable balances at June 30 and the related amounts for the allowances for uncollectible accounts are as follows:

	2020		
	Gross Receivables	Allowance for Uncollectible Accounts	Net Receivables
Assessments receivable	\$ 159,906,244	\$ 56,173,755	\$ 103,732,489
Benefit overpayment receivables:			
Basic unemployment compensation	14,167,481	5,786,646	8,380,835
Federal employees	12,218	8,322	3,896
Ex-servicemen	22,886	11,901	10,985
Disaster unemployment assistance	40,565	25,436	15,129
Pandemic unemployment assistance	235,988	-	235,988
Federal pandemic unemployment compensation	8,340,421	-	8,340,421
Trade readjustment	129,923	55,735	74,188
Emergency unemployment compensation	416,340	416,340	-
Total benefit overpayment receivables	23,365,822	6,304,380	17,061,442
Due from reimbursable employers	11,059,678	-	11,059,678
Intergovernmental receivables:			
Federal government	200,397,252	-	200,397,252
State agencies	6,939,036	-	6,939,036
Other states	3,488,194	-	3,488,194
Local governments	15,990,346	334,320	15,656,026
Total intergovernmental receivables	226,814,828	334,320	226,480,508
Total receivables	\$ 421,146,572	\$ 62,812,455	\$ 358,334,117
	2019		
	Gross Receivables	Allowance for Uncollectible Accounts	Net Receivables
Assessments receivable	\$ 158,455,106	\$ 41,432,359	\$ 117,022,747
Benefit overpayment receivables:			
Basic unemployment compensation	13,160,382	6,622,968	6,537,414
Federal employees	23,991	11,592	12,399
Ex-servicemen	49,099	25,269	23,830
Disaster unemployment assistance	49,635	6,779	42,856.00
Trade readjustment	180,636	4,522	176,114
Emergency unemployment compensation	958,721	958,721	-
Total benefit overpayment receivables	14,422,464	7,629,851	6,792,613
Accounts receivable	6,690,885	4,020,992	2,669,893
Intergovernmental receivables:			
Federal government	778,048	-	778,048
State agencies	511,471	-	511,471
Other states	932,395	-	932,395
Local governments	2,471,655	-	2,471,655
Total intergovernmental receivables	4,693,569	-	4,693,569
Total receivables	\$ 184,262,024	\$ 53,083,202	\$ 131,178,822

South Carolina Department of Employment and Workforce  
Unemployment Compensation Fund  
Notes to Financial Statements  
For the Years Ended June 30, 2020 and 2019

**Note 6. Information on Business -Type Activities**

The following information is provided for incorporation into the State of South Carolina's Comprehensive Annual Financial Report for the years ended June 30,

	2020	2019
Charges for services	\$ 291,273,904	\$ 341,502,375
Operating grants and contributions	2,377,010,050	5,143,445
Less: expenses	(3,059,551,088)	(165,433,731)
Net program revenues	(391,267,134)	181,212,089
Non-operating revenues	25,512,352	22,168,521
Transfers in	500,000,000	-
Change in net position	134,245,218	203,380,610
Beginning net position	1,166,437,063	963,056,453
Ending net position	\$ 1,300,682,281	\$ 1,166,437,063

**Note 7. Contingencies**

**Federal Grants** - The various programs administered by the Unemployment Compensation for the year ended June 30, 2020 and previous years are subject to audit by the federal grantor agencies. At the present time, amounts, if any, which may be due to federal grantors have not been determined, but the Unemployment Compensation Fund believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the Unemployment Compensation. Furthermore, there is no evidence to indicate that a liability should be recorded at June 30, 2020 and 2019.

The Unemployment Compensation is administered by the Agency, and the Agency is considered the grantee for Single Audit purposes. The Single Audit is performed for federal grants at the grantee level, and the Schedule of Expenditures of Federal Awards is therefore included in the Agency's government-wide financial statements.

**Coronavirus** - The 2019 novel Coronavirus Disease ("COVID-19") has adversely affected, and may continue to adversely affect economic activity globally, nationally and locally. It is unknown the extent to which COVID-19 may spread, may have a destabilizing effect on financial and economic activity and may increasingly have the potential to negatively impact the Agency's costs, demand for its services, and the U.S. economy. These conditions could adversely affect the Agency's business, financial condition, and results of operations. Further, COVID-19 may result in health or other government authorities requiring the closure of the Agency's operations, which could significantly disrupt the Agency's operations. The extent of the adverse impact of the COVID-19 outbreak on the Agency cannot be predicted at this time.

**Note 8. Interest Income**

The Federal Unemployment Trust Fund's quarterly yield averaged 2.42% and 2.35% for the years ended June 30, 2020 and 2019. The Unemployment Compensation Fund began earning full interest on Federal Unemployment Trust Fund balances during the year ended June 30, 2016. For the years ended June 30, 2020 and 2019, the Unemployment Compensation Fund earned interest income on Federal Unemployment Trust Fund balances for \$25,511,764 and \$22,086,514, respectively.

South Carolina Department of Employment and Workforce  
Unemployment Compensation Fund  
Notes to Financial Statements  
For the Years Ended June 30, 2020 and 2019

**Note 9. FUTA Penalty**

Effective October 21, 2013, pursuant to the Federal Trade Adjustment Assistance Extension Act of 2011, and section 41-41-45 of the South Carolina Code of Laws, the Agency began assessing a monetary penalty of 25% on fraudulent overpayments.

Of the 25% total, 15% is a federally mandated penalty to be returned to the Agency upon collection, and 10% represents a State mandated penalty to be transferred to the Agency's Integrity Fund, to be used for the purpose of promoting unemployment insurance integrity efforts by the Agency.

Effective June 8, 2015, the FUTA penalty rate changed to 33% from 25%. As a result, the federal mandated penalty increased by 8% to 23%, while the State mandated penalty remained at 10%.

**Note 10. Subsequent Events**

During December 2019, COVID-19 was first reported in Wuhan, China. Less than four months later, on March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The extent of COVID-19's effect on the Agency will depend on future developments, including the duration, spread and intensity of the pandemic, all of which are uncertain and difficult to predict considering the rapidly evolving landscape. As a result, it is not currently possible to ascertain the overall impact of COVID-19 on the Agency's operations. While the impact is currently expected to be temporary, if the pandemic continues to evolve into a severe worldwide health crisis, the disease could have a material adverse effect on the Agency. For the period from July 1, 2020 through October 15, 2020, the Agency had processed \$1,684,371,161 of unemployment related benefits of which \$1,301,657,743 were funded federally by the program for Federal Pandemic Unemployment Compensation ("FPUC"), Pandemic Unemployment Assistance ("PUA"), Pandemic Emergency Unemployment Assistance ("PEUC"), Extended Benefits ("EB") and Lost Wage Assistance ("LWA"). The claims not funded by the FPUC were funded with the cash held by the Unemployment Compensation Fund.

**Note 11. The State Coronavirus Relief Fund Transfer**

In August 2020, the State of South Carolina awarded the Agency a Coronavirus Relief Fund Grant of \$500.0 million to supplement the Unemployment Compensation Fund cash balance. The Unemployment Compensation Fund accrued an *Internal Balance* and *Transfer In* at June 30, 2020 to reflect the reimbursement for eligible expenditures incurred during the year ended June 30, 2020.



**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with  
*Government Auditing Standards***

Mr. George L. Kennedy, III, CPA  
State Auditor  
South Carolina Office of the State Auditor  
Columbia, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the South Carolina Department of Employment and Workforce Unemployment Compensation Fund (the "Unemployment Compensation Fund") as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Unemployment Compensation Fund's basic financial statements and have issued our report thereon dated November, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Unemployment Compensation Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Unemployment Compensation Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Unemployment Compensation Fund's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2020-001 that we consider to be a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Unemployment Compensation Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Unemployment Compensation Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Unemployment Compensation Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Columbia, South Carolina  
November, 2020

South Carolina Department of Employment and Workforce  
Unemployment Compensation Fund  
Schedule of Findings and Responses  
For the Year Ended June 30, 2020

**Section I. Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- |  |               |     |               |      |
|--|---------------|-----|---------------|------|
| • Material weakness (es) identified?                   | <u>  X  </u>  | Yes | <u>      </u> | No   |
| • Significant deficiency (ies) identified?<br>reported | <u>      </u> | Yes | <u>  X  </u>  | None |

Noncompliance material to financial statements noted?	<u>      </u>	Yes	<u>  X  </u>	No
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**Section II. Financial Statement Findings**

None reported